

First Quarter of FY2022 Presentation Q&A

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Questioner 1

Q. 【Group-Wide】 Inventories at the end of June 2022 increased 75.8 billion yen, compared with the end of March of the same year. Could you share with us the cause?

A. That is due to the impact of depreciation of the yen and an increase in inventory quantities. By product, the inventories of capacitors, lithium-ion secondary batteries and others increased. In the background to the increase in inventory quantities, first, there were lockdowns in China that prevented us from converting some products into sales, and they ended up unsold as inventories. As a result, inventories piled up overseas more than in Japan. The second reason is that high-end smartphones enter a seasonal peak season from the second to third quarters. In anticipation of that period, we built up inventories.

Q. 【Group-Wide】 What will be the output in the second quarter compared with 493 billion yen in the first quarter?

A. We are unable to give a figure for the output clearly because there is also the impact of exchange rates. However, we expect the level of the second quarter to be similar to that of the first quarter.

Q. 【Components】 Could you share with us the monthly movement of the book-to-bill (BB) ratio?

A. The BB ratio has fallen slightly from April to June in terms of capacitors as a whole. Having said that, the situation varies from market to market. Although the ratio fell in terms of products for the smartphone and PC markets, it has managed to remain at a certain level in terms of products for the automotive market. The ratio is on a slightly upward trend in July.

Q. 【Components】 Is there any change to the current forecast concerning the operational rate and the price environment of capacitors?

A. The operational rate in the first quarter fell in some sites partly due to lockdowns in China. However, as we assumed, we were able to maintain a higher-than-normal level, about 90% to 95% of capacity. Therefore, we operated at full capacity by taking measures such as working on plants' days off. On the other hand, from July onwards, we adjust production to 90% or so of capacity, which is a normal operational rate, in line with demand. This is based on our recognition that we had been able to hold a certain level of inventories for the automotive and PC markets. The average unit price for the first quarter was on an upward trend partly due to the impact of the product mix. However, from July onwards, the supply-demand situation for middle to low-end smartphones and PC market has slackened a bit. Accordingly, we are assuming a slight price reduction. On the other hand, we expect a certain level of prices to be maintained in products for high-end smartphones. Looking at capacitors as a whole, there has been no significant change to the assumption of price reductions that we made in April.

Q. 【Components】 Is it correct to assume that the supply-demand situation of capacitors as a whole will not deteriorate noticeably from the current status since the level is somehow bolstered mainly by demand for products for automobiles and data centers?

A. Yes.

Q. 【Group-Wide】 Could you share with us your forecast of net sales for the second quarter.

A. By application, products for mobility are firm, and we see the usual seasonal trend coming to products for high-end smartphones. Therefore, we forecast sales of capacitors, high-frequency modules and SAW filters for high-end smartphones will outgrow those of the first quarter as they do every year. For mobility, our view is that ongoing shipments align with demand, and that inventory held in distributors, finished goods manufacturers and others is not piling up excessively. Our take on the situation is that the level of customers' parts inventory is a month or a little more than a month higher than in normal times. We find the present way of holding inventory the new normal at a time when supply chains are unstable.

Questioner 2

Q. 【Components】 Operating income of components ended up at a similar level to that of a year earlier although sales of capacitors increased and the yen depreciated. Could you explain why?

A. That is because sales of inductors marked a year-on-year decrease due to a decline in demand for PCs although sales of capacitors increased about 6% year on year.

Q. 【Components】 Should I understand that in terms of capacitors alone, the operational rate was high and the product mix was favorable in addition to the impact of depreciation of the yen?

A. Yes. Whereas demand for capacitors is weak for smartphones and PCs, demand for mobility is strong, and the product mix is becoming favorable.

Q. 【Group-Wide】 Sales for mobility in the first quarter were almost flat compared with the last quarter, but excluding the impact of foreign exchange, did sales actually decrease? Also, is it correct to assume that sales for mobility will rise proportionally as the production quantity of automobiles increases from the second quarter onwards?

A. If we look at capacitors alone, we can say that sales will grow in proportion to the production quantity. On the other hand, as sales for mobility, functional devices such as inertial force sensors also make up a certain percentage of the sales. Regarding functional devices, we saw the business that adopts our products experience a tough situation during the first quarter, which is different from the situation of capacitors. As we expect functional devices to grow from the second quarter onwards, our forecast is that products for mobility as a whole will increase at a pace a little faster than the growth of the automobile production quantities.

Questioner 3

Q. 【Components】 Could you share with us how you recognize the expanding trend of the quantity of capacitors mounted on finished goods on the back of smartphones' ongoing shift to 5G, electrification of automobiles and others.

A. As for smartphones' shift to 5G, if we divide them into low-end and high-end smartphones, we have a sense that the quantity mounted on high-end smartphones remains on an upward trend, but the quantity mounted on low-end smartphones seems stable. With the tendency of higher functions and electrification rapidly advancing in automobiles, we see quantities mounted on power trains and others, in particular, on an upward trend. Furthermore, a great number of them are mounted on modules such as for electronic control and autonomous driving. Accordingly, we also expect a certain level of quantities to be boosted by such trends.

Q. 【Components】 Will you maintain production capacity reinforcement at an annual rate of plus 10% (on a capacity load basis) as opposed to the growth of the entire market of capacitors?

A. Yes. There has been a large difference between automobiles and high-end smartphones in terms of the number of components mounted. We believe that the number of components mounted on automobiles will keep increasing more and more. We forecast the overall market in terms of quantity will grow at the pace of the annual market growth rate plus 10%, although there are various sizes.

Q. 【Group-Wide】 Regarding how parts inventory is held at automotive Tier 1, you have concluded that there is no sign of manufactures moving to reduce inventory that is kept as part of BCP and that a move to lower the level of inventory will not happen down the road. Could you tell us the background to your conclusion?

A. We think that if the supply chain of semiconductors returns to normal, customers' appropriate inventory level will be lowered slightly, which will, in turn, affect us to some extent. However, we do not expect a normalization of the supply chain will happen within FY2022. This is the reason for our judgment. Our view is that it will take more time before the supply chain, mainly of power semiconductors, returns to normal.

Q. 【Devices/modules】 Could you share with us your recovery plan for high-frequency modules toward the next fiscal year?

A. As the first step, we are pushing the effort to expand sales to smartphone manufacturers in Greater China since our high-frequency modules are included in the list of parts recommended for the new platform of semiconductor manufacturers in Greater China. Having said that, due to deterioration in business confidence in China, there is some delay in a recovery in demand that we assumed in April would happen from the second quarter. As the second step, we have been working on product development for high-end smartphones with the aim of having them adopted for a new platform. However, we have not yet reached a point where we are confident of the result. We are in the middle of taking in new technologies, including Digital ET, in a way that coincides with the timing of customers changing their platforms.

Questioner 4

Q. 【Group-Wide】 When comparing net sales and profit between the first quarter of this year and a year earlier, the drop in profit was larger than that in net sales. Could you elaborate on the causes?

A. A major cause was the difference in the product mix. The composition rate of SAW filters in net sales plunged, which led to the larger rate of lithium-ion secondary batteries. Additionally, in terms of costs, increases in raw material costs, energy costs, and labor costs too caused this trend. In the case of capacitors, we will manage to absorb the cost increase by improving productivity. However, in the case of lithium-ion secondary batteries, it is taking more time to pass the cost increase on to their selling prices. Additionally, more unfavorable conditions reinforced the profit decrease, compared with the sales decrease.

Q. 【Group-Wide】 What are your expectations for net sales and profit for the second quarter?

A. Since the second quarter is a period when sales of products for high-end smartphones increase, net sales will be higher than those of the first quarter.

We forecast that the group-wide output excluding the impact of exchange rates will be similar to that of the first quarter. We expect profit to increase from the first quarter as consumption of inventories too will make progress.

Q. 【Devices/modules】 Do you expect the profitability of lithium-ion secondary batteries to considerably improve from the first quarter to the second quarter?

A. With the surge in material costs continuing even now, we intend to lose no time in passing the cost increase on to our selling prices to customers. However, we have to negotiate with customers, one by one, so we expect a time lag of three to six months to continue for some time even after the second quarter. The first quarter was really challenging in terms of profit/loss due to various factors, such as the fact that we had to incur depreciation as we invested in increasing production and the situation of too many product line-ups although we were shifting from mobile-related products, which we used to focus on, to power-related ones due to the revision of our business portfolio.

Q. 【Devices/modules】 Could you explain the market environment and the profitability of SAW filters for each of the first quarter and the second quarter.

A. Speaking about seasonal fluctuating factors, we need to significantly raise the operational rate for modules in the second quarter. As far as the first quarter is concerned, mainly applications for smartphones in Greater China used to be a major market. However, as demand has fallen, we have lowered the operating rate of our SAW filters accordingly, and the profitability has deteriorated.

Q. 【Devices/modules】 You say that both sales and profit of SAW filters decreased year on year. Is it because the timing of procuring parts for high-end smartphones has been delayed this year, compared with every year in the past, due to lockdowns in China?

A. That is one of the reasons. However, we analyze that the bigger reason in the first quarter is the impact of a drop in demand for smartphones in Greater China. We are certain to be able to also raise the operational rate significantly in the second quarter.

Questioner 5

Q. 【Group-Wide】 Do the figures for the first quarter include special expenses such as temporary impairment losses?

A. There were no special expenses, in particular, such as a temporary impairment loss, in the first quarter. However, to compare the first quarter of this year with that of the previous year, this year's figures include a slight amount of increase in fixed costs that were caused by moving Eta Wireless and Resonant, both of which were acquired after the first quarter of the previous fiscal year, into consolidation.

Q. 【Group-Wide】 Will you be able to achieve the net sales and profit plan for FY2022, which was announced in April?

A. We simulated a full-year performance plan by taking into account the current level of exchange rates and the effects of usual seasonal fluctuations. We have found that the plan is at a level where we can fully achieve it including converting order backlogs into sales.

Q. 【Group-Wide】 To break down the increase of inventories, how much is the net amount of the increase excluding the impact of depreciation of the yen?

A. The exchange rate at the end of June 2022 was approximately 136 yen per USD as opposed to approximately 122 yen per USD at the end of March 2022. Exact figures are not available, but inventories held by production companies and sales companies overseas account for almost half of the group-wide inventories. So, please infer the net amount from this information.

Questioner 6

Q. 【Group-Wide】 How great was the negative impact of the lockdowns in China on net sales?

A. At the time when we made a forecast in April, we expected net sales to decline 20 billion yen for the first quarter, but we think that the decline ended up slightly larger than our assumption. From the second quarter onwards, there is basically no impact of lockdowns in China. We expect to be able to convert what we could not ship out during the first quarter into sales in the first half of the second quarter.

Q. 【Components】 Could you share with us the trend in demand for capacitors used in gaming PCs?

A. Sales of our capacitors are recorded especially in the field of high-performance models among gaming PCs.

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